

Directors' Report

The directors ("Directors") of the Company present their report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the maintenance, operation, provision of satellite transponder capacity and related services; satellite-based broadcasting and telecommunications services; and other service.

SEGMENTAL INFORMATION

Details of the segmental information are set out in note 11 to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the results of the Group and appropriations of the Company for the year ended 31 December 2006 are set out in the consolidated income statement on page 43 and the accompanying notes to the financial statements.

The Directors do not recommend any payment of final dividend for the year ended 31 December 2006

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 104.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2006 are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2006 are set out in note 15 to the financial statements.

JOINTLY CONTROLLED ENTITIES

Details of the Group's interest in jointly controlled entities are set out in note 16 to the financial statements.

SHARE CAPITAL

During the year, no share was issued.

Details of movement of the share capital are set out in note 25 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

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RESERVES

Details of movements during the year in the reserves of the Group and of the Company are set out in the consolidated statement of changes in equity and the statement of changes in equity on page 47 and 48 respectively.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company are set out in note 27 to the financial statements.

BORROWINGS

Details of the Group's bank borrowings are set out in note 21 to the financial statements.

FIXED CHARGE

Details of the Group's fixed charge are set out in note 29 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive directors

Ni Yifeng (*President*)

Tong Xudong (*Vice President*)

Non-executive directors

Rui Xiaowu (*Chairman*)

(appointed as non-executive director and Chairman on 7 December 2006)

Lim Toon

Yin Yen-liang

Wu Zhen Mu

Zhao Liqiang

(appointed as non-executive director on 7 December 2006)

Yong Foo Chong

(appointed as non-executive director on 8 March 2007)

Tseng Ta-mon

(*alternate director to Yin Yen-liang*)

Lan Kwai-chu

(appointed as non-executive director on 16 August 2005 and resigned on 27 March 2006)

Kwok Kah Wai Victor

(ceased as alternate director to Lim Wee Seng and appointed as alternate director to Lan Kwai-chu on 16 August 2005; and resigned as alternate director to Lim Toon and Lan Kwai-chu on 27 March 2006)

Liu Ji Yuan

(resigned as non-executive director and Chairman on 7 December 2006)

Zhang Hainan

(resigned as non-executive director and Deputy Chairman on 7 December 2006)

Ho Siaw Hong

(appointed as non-executive director on 27 March 2006 and resigned as non-executive director on 8 March 2007)

Directors' Report

DIRECTORS (Continued)

Independent non-executive directors

Yuen Pak Yiu, Philip

Huan Guocang

Lui King Man

In accordance with Bye-law 86(2) and Bye-law 87 of the Company's Bye-Laws, Messrs. Rui Xiaowu, Zhao Liqiang and Yong Foo Chong will retire; and Messrs. Lim Toon, Yin Yen-liang and Yuen Pak Yiu, Philip will retire by rotation, at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The remaining Directors of the Company continue in office.

DIRECTOR'S SERVICE CONTRACT

No service contract was entered into between the Director and the Company or any of its subsidiaries that is exempt under rule 13.69 of the rules governing the listing of securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' EMOLUMENTS

The emoluments of the Directors on a named basis are set out in note 7 to the financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-Executive Directors an annual confirmation as regards independence pursuant to rule 3.13 of the Listing Rules and in the opinion of the Directors having regard to the Company's Nomination Committee's assessment of their independence, they remain to be considered as independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2006, the interests of each Director and the chief executive of the Company are interested, or are deemed to be interested in the long and short positions in the shares and underlying shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company under section 352 of the SFO are as follows:

| Name of Director and chief executive | Nature of interests | Number of shares held | Numbers of share options ⁽¹⁾ |
|---|---------------------|-----------------------|---|
| Lo Kin Hang, Brian (Vice President and Company Secretary) | Personal | 5,000 | 800,000 |

⁽¹⁾ The share options were granted on 19 June 2001 under the share option scheme adopted at the annual general meeting of the Company held on 22 May 2001 and all the above share options have an exercise price of HK\$2.765 per share and are exercisable within the period from 22 May 2003 to 21 May 2011.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES (Continued)

Save as disclosed above, as at 31 December 2006, none of the Directors or the chief executives of the Company had or was interested, or were deemed to be interested in the long and short positions in the shares and underlying shares of the Company nor any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies respectively.

SHARE OPTION SCHEMES

Owing to the enforcement of the new requirements of the Listing Rules in September 2001, the Company adopted a new share option scheme (the "Scheme 2002") at its annual general meeting on 22 May 2002, whereupon the Board of Directors of the Company shall only grant new options under the Scheme 2002.

During the year, no options were granted under the Scheme 2002, which will expire on 21 May 2012.

On 19 June 2001, the Company had granted options to its employees under a previous share option scheme (the "Scheme 2001"), which was adopted at the annual general meeting on 22 May 2001, details of which are set out below. Since then, no further options were granted under the Scheme 2001 and, all the options granted under the Scheme 2001 shall however remain valid until their expiry.

With the adoption of the Scheme 2002, the Company can provide incentives or rewards to its employees including non-executive directors and independent non-executive directors for their contribution to the Group and/or enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

The total number of shares available for issue under the existing share option schemes (Scheme 2001 and Scheme 2002) is upon exercise of all share options granted and yet to be exercised 3,390,000, (2005: 4,230,000) which represents 0.82% (2005: 1.03%) of the issued shares of the Company for the time being and not exceeding 10% of the shares of the Company in issue on the adoption date of the Scheme 2002 (i.e. 412,720,000). As at the date of this report, the total number of shares of the Company in issue was 413,265,000 (2005: 413,265,000).

Save for a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates according to the Listing Rules, the total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted under the Scheme 2002 and any other share option schemes of the Company (including outstanding options) to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options to any participant in excess of the 1% limit must be subject to shareholders' approval in general meeting of the Company.

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SHARE OPTION SCHEMES (Continued)

The exercise price (subscription price) will be determined by the Directors in its absolute discretion but shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company.

The particulars of the outstanding share options granted under Scheme 2001 are as follows:

| | Options granted on 19 June 2001 and remain outstanding as at 1 January 2006 | Options cancelled during 2006 | Options exercised during 2006 | Options remain outstanding as at 31 December 2006 |
|---|---|-------------------------------------|-------------------------------------|---|
| Name of director and chief executive: | | | | |
| Lo Kin Hang, Brian (Vice President and Company Secretary) | 800,000 | – | – | 800,000 |
| | 800,000 | – | – | 800,000 |
| Employees in aggregate: | | | | |
| Employees under employment contracts | 4,230,000 | 840,000 | – | 3,390,000 |
| | 4,230,000 | 840,000 | – | 3,390,000 |

The above granted options have an exercise price of HK\$2.765 per share and are exercisable within the period from 22 May 2003 to 21 May 2011, whilst there is no minimum period nor any amount payable on application required before exercising the options. The closing price of the shares immediately before the date on which these options were granted was HK\$3.85.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

INTERESTS IN COMPETING BUSINESS DISCLOSURES

As at 31 December 2006, the following director of the Company is also director in other businesses, which compete or are likely to compete, either directly or indirectly, with the Group's business:

| Name of Director | Name of the Companies | Principal Activities |
|------------------|--------------------------------------|--|
| Lim Toon | New Century Infocomm Tech Co. Ltd | Provision of fixed line telecommunication services |
| | JSC Kazakhtelecom | Provision of fixed line telecommunications services, telegraph and telex services, data telecommunications, lease of channels, TV and radio retransmission, wire radio broadcasting and wireless communications services |

SUBSTANTIAL SHAREHOLDER

As at 31 December 2006, according to the register of interests in shares and short positions kept by the Company under section 336 of the SFO, the following companies are directly and indirectly interested in 5 per cent or more of the issued share capital of the Company:

| Name | Note | Number of shares interested | % of issued share capital |
|---|------|--------------------------------|------------------------------|
| APT Satellite International Company Limited | | 214,200,000 | 51.83 |
| China Aerospace Science & Technology Corporation | 1 | 37,200,000 | 9.00 |
| China Aerospace International Holdings Limited | 1 | 31,200,000 | 7.55 |
| Sinolike Investments Limited | 1 | 31,200,000 | 7.55 |
| Temasek Holdings (Private) Limited | 2 | 22,800,000 | 5.52 |
| Singapore Telecommunications Limited | 2 | 22,800,000 | 5.52 |
| Singasat Private Limited | 2 | 22,800,000 | 5.52 |

SUBSTANTIAL SHAREHOLDER (Continued)

Note:

1. China Aerospace Science & Technology Corporation was deemed to be interested in the shares of the Company by virtue of its 41.86% shareholding in China Aerospace International Holdings Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in Sinolike Investments Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in CASIL Satellite Holdings Limited which holds 14,400,000 shares of the Company.
2. Temasek Holdings (Private) Limited was deemed to be interested in the shares of the Company by virtue of its 67.16% shareholding in Singapore Telecommunications Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in Singasat Private Limited.

Save as disclosed above, as at 31 December 2006, no other party has an interest or a short position in the issued share capital of the Company, as recorded in the register required to be kept by the Company under section 336 of the SFO.

As at the date of this report, Messrs. Ni Yifeng, Tong Xudong, Rui Xiaowu, Lim Toon, Yin Yen-liang, Wu Zhen Mu, Zhao Liqiang, Yong Foo Chong and Tseng Ta-mon (alternate director to Yin Yen-liang), directors of the Company, are also directors of APT Satellite International Company Limited.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more of the Company's issued share capital at 31 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

In 2006, the aggregate turnover attributable to the Group's five largest customers was less than 30% (2005: 34%) of the total turnover and the aggregate purchase attributable to the Group's five largest suppliers was less than 30% of total purchases. In 2005, the largest customer accounted for 9% of the Group's turnover.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions also constituted related party transaction in accordance with the Hong Kong accounting principles, details are set out in note 34 to the financial statements. During the year ended 31 December 2006, the Group had the following continuing connected transactions, details of which are set out below.

As announced on 2 December 2004, for the purposes of governing the continuing connected transactions (the "Continuing Connected Transactions") and ensuring the compliance with Chapter 14A of the Listing Rules, on 1 December 2004 two Master Agreements were entered into between the Company and Singapore Telecommunications Limited ("SingTel") in relation to the provision of satellite transponder and any other satellite related services by the Group to SingTel and Singapore Telecom Hong Kong Limited (an associate of SingTel), or vice versa ("Transponder Transactions"); and between the Company and C2C Pte Limited (an associate of SingTel) in relation to the provision of telecommunications related services by the Group to C2C Pte Limited and its subsidiary, or vice versa ("Telecom Transactions"). The duration of the Master Agreements shall remain in force until 31 December 2006.

CONTINUING CONNECTED TRANSACTIONS (Continued)

As announced on 28 December 2006, prior to the expiry of the Master Agreements, the Company has entered into the Supplemental Agreement with SingTel thereby extending the Master Agreement for further three years to 31 December 2009 in respect of the provision of Transponder Transactions and Telecom Transactions.

SingTel was a connected person because it was the holding company of Singasat Private Limited ("SingaSat"), which was a substantial shareholder of APT Satellite Telecommunications Limited, which is owned as to 55% indirectly by the Company and 45% by SingaSat. The entering into the Transponder Transactions, the Telecom Transactions and the Master Agreements constituted connected transactions.

As approved by the independent shareholders of the Company on 30 December 2004, for the three years ending 31 December 2004, 31 December 2005 and 31 December 2006, the annual aggregate value of the Transponder Transactions will not exceed HK\$15 million, HK\$18 million and HK\$32 million, respectively, and in the case of Telecom Transactions, their annual aggregate value will not exceed HK\$2 million, HK\$9 million and HK\$11 million, respectively.

During the year ended 31 December 2006, the annual aggregate values were as follows:

- | | | |
|------|--------------------------|---------------|
| (i) | Transponder Transactions | HK\$7,074,000 |
| (ii) | Telecom Transactions | HK\$837,000 |

The Independent Non-Executive Directors of the Company have reviewed the Continuing Connected Transactions and confirmed that:

- (i) the annual aggregate values of the Transponder Transactions and the Telecom Transactions for the year ended 31 December 2006 did not exceed HK\$32 million and HK\$11 million, respectively;
- (ii) the Continuing Connected Transactions have been and will continue to be entered into the usual and ordinary course of business of the Group;
- (iii) the Continuing Connected Transactions have been and will continue to be conducted either (1) on normal commercial terms; or (2) if there is no available comparison, on terms no less favorable to the Group than terms available from independent third parties; and
- (iv) the Continuing Connected Transactions have been and will continue to be entered into in accordance with the Master Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

RETIREMENT BENEFIT SCHEMES

Details of the Company's retirement benefit schemes are set out in note 33 to the financial statements.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" under this annual report.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

KPMG have been appointed as auditors of the Company since 2003 upon the resignation of Messrs. Deloitte Touche Tohmatsu.

By Order of the Board

Rui Xiaowu

Chairman

Shenzhen, China, 11 April 2007